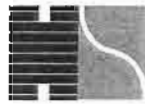


FINANCIAL REPORT
WHITEFISH TOWNSHIP COMMUNITY SCHOOLS
June 30, 2006

WHITEFISH TOWNSHIP COMMUNITY SCHOOLS
FINANCIAL REPORT
Year-ended June 30, 2006

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August 10, 2006

Independent Auditors' Report

Superintendent and Board of Education
Whitefish Township Community Schools
Paradise, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Whitefish Township Community Schools, as of and for the year-ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Whitefish Township Community Schools, as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2006, on our consideration of Whitefish Township Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Whitefish Township Community Schools
Paradise, Michigan

The management's discussion and analysis and the budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Whitefish Township Community Schools' basic financial statements. The accompanying other supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan



Whitefish Township Community Schools

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Patrick Rowley, Superintendent/Principal

Management's Discussion and Analysis

Overview of the Basic Financial Statements

Whitefish Township Community Schools' basic financial statements include government-wide statements, fund financial statements and notes to the financial statements. This report also contains required and other supplemental information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements report information on all of the School's nonfiduciary funds. The government-wide statements are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

The Statement of Net Assets displays all of the School's assets and liabilities, with the difference reported as net assets. All long-term assets and debt obligations are presented.

The Statement of Activities focuses on the gross and net cost of the various functions within the School (instruction, support services, etc.), which are supported by the School's general revenues (property taxes, unrestricted State Aid, etc.).

Fund Financial Statements

The fund financial statements report on the governmental funds, with an emphasis on major funds. Major funds are determined by the level of activity within the various funds. The focus of the fund financial statements is on the sources and uses of funds during the current year.

The fiduciary fund is also presented, separate from the governmental funds, due to the fact that these assets do not represent assets of the School. These assets are not presented as part of the Government-wide financial statements.

Whitefish Township Community Schools maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund and Cafeteria Fund, which are considered major funds. Data from the other three governmental funds are combined into a single, nonmajor governmental funds column. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the Other Supplemental Information section of the report.

Notes to the Financial Statements

The notes provide additional information which is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

The table below summarizes the School's net assets as of June 30, 2006:

WHITEFISH TOWNSHIP COMMUNITY SCHOOLS
Statement of Net Assets
June 30, 2006

	2006	2005
	<u> </u>	<u> </u>
Assets		
Current and other assets	\$ 344,196	\$ 286,177
Capital assets - net of accumulated depreciation	<u>180,708</u>	<u>202,622</u>
Total assets	<u>524,904</u>	<u>488,799</u>
Liabilities		
Current liabilities	<u>123,751</u>	<u>76,280</u>
Net Assets		
Investment in capital assets	180,708	202,622
Restricted	5,890	5,774
Unrestricted	<u>214,555</u>	<u>204,123</u>
Total net assets	<u>\$ 401,153</u>	<u>\$ 412,519</u>

At the end of the fiscal year, Whitefish Township Community Schools is able to report positive balances in all three categories of net assets. Nearly half of the School's net assets is its investment in capital assets (land, construction in progress, buildings, equipment and vehicles), less any related debt used to acquire those assets that is still outstanding. The School uses these capital assets in providing educational services, consequently these assets are not available for future spending.

The second portion of net assets, restricted net assets, represents resources that are subject to external restrictions on how they may be used. This would include restrictions for debt service and capital projects.

The remaining portion of net assets, unrestricted net assets, may be used at the School's discretion to meet ongoing obligations.

The results for the School as a whole are reported in the Statement of Activities, which is summarized below:

WHITEFISH TOWNSHIP COMMUNITY SCHOOLS
Statement of Activities
Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Revenue		
Program revenue:		
Charges for services	\$ 8,106	\$ 7,748
Grants and contributions	132,799	137,416
General revenue:		
Property taxes	648,696	605,768
State Aid, unrestricted	217,378	322,100
Interest and investment earnings	7,505	3,330
Other	11,121	13,382
	<u>1,025,605</u>	<u>1,089,744</u>
Function/Program Expenses		
Instruction	531,951	474,963
Support services	399,566	395,616
Community services	-	8,329
Food services	64,310	73,919
Athletics	15,141	16,854
Depreciation (unallocated)	26,003	25,187
	<u>1,036,971</u>	<u>994,868</u>
Change in net assets	(11,366)	94,876
Net assets - beginning of year	<u>412,519</u>	<u>317,643</u>
Net assets - end of year	<u>\$ 401,153</u>	<u>\$ 412,519</u>

As reported above, the School recorded \$1,036,971 of expenses. These expenses were funded minimally by charges for services. The majority of the School's revenues were from property taxes (63%), unrestricted state aid (21%), and grants and contributions (13%).

The School's experienced a decrease in net assets this year. There was a substantial decrease, 33% in State revenues while expenses continued to increase at 4%. A 7% increase in property taxes was not enough to overcome the State shortfall.

Fund Financial Analysis

As of year end, the governmental funds reported a combined fund balance of \$220,445 which is \$10,548 higher than the beginning of the year \$209,897. The increase was not nearly as great as the \$114,568 increase last year for the same reasons as noted above for the net asset decrease. The difference between the changes in net assets and fund balances for Whitefish Township Community Schools is that depreciation is recognized in the determination of net assets and capital outlay expenditures are not. In the current year, depreciation expense of \$26,003 exceeded capital outlay expenditures of \$4,089.

General Fund Budgetary Highlights

Final budgeted revenues increased from the original budgeted revenues. This was attributable to the Federal Freedom to Learn Grant which was not included in the original budget.

Final budgeted expenditures also increased from the original budgeted amounts. This was also largely the result of the Freedom to Learn grant which was used to purchase computers for high school instruction. Otherwise, final budgeted expenditures would have been slightly less than the original budget.

Final revenues were within \$500 of the final budget.

Final expenditures were less than final budgeted amounts by over \$12,000. This was primarily the result of actual other support services for technology being less than budgeted. In part this is the result of the budget reflecting the board's decision to designate \$12,000 of fund balance for technology.

Capital Assets

At June 30, 2006 the School had \$180,708 (net of accumulated depreciation) invested in capital assets. The following table summarizes the capital asset activity for the year:

WHITEFISH TOWNSHIP COMMUNITY SCHOOLS
Year Ended June 30, 2006

	July 1, 2005	Additions	Disposals	June 30, 2006
Buildings and improvements	\$ 611,407	\$ -	\$ -	\$ 611,407
Furniture and equipment	25,495	4,089	-	29,584
Vehicles	147,564	-	-	147,564
	<hr/>	<hr/>	<hr/>	<hr/>
Total capital assets	784,466	4,089	-	788,555
	<hr/>	<hr/>	<hr/>	<hr/>
Less accum depreciation	581,844	26,003	-	607,847
	<hr/>	<hr/>	<hr/>	<hr/>
Net capital assets	<u>\$ 202,622</u>	<u>\$ (21,914)</u>	<u>\$ -</u>	<u>\$ 180,708</u>

Economic Factors

Recognition by the state legislature that all children deserve a quality, basic education and their willingness to appropriate funding to five geographically, isolated districts had a huge impact on Whitefish Township Community Schools. State aid in the form of Section 22d funds allows this district to remain solvent.

For the 2003-04 school year, the district had to reduce the secondary staff from four teachers to three teachers. With the addition of the 22d funds, the district was able to hire back a social studies/history teacher for the second semester of 2004-05, securing compliance with No Child Left Behind by having four highly qualified secondary teachers. Prior to 22d funds, there was no place else for the district to cut without further compromising education. The district was able to increase custodial time allowing for cleaning of the building, allow more hours for special education teacher, and provide a one hour per day office assistant to their only secretary/bookkeeper. Kindergarten through 8th grades continue to remain in combined classrooms of three grades per classroom.

The 2005-06 school year has brought about plans for much needed physical improvements to the building that will commence during the summer/fall of 2006. Prior to Section 22d funding, we did not have funds to address the failing condition of our building. The 2006-07 school year brings about plans to expand our curriculum offerings and proceed with ongoing curriculum alignment.

The increasing cost of health insurance and retirement continue to be two of the largest increases to the budget.

Whitefish Township School is the hub of the community. Residents and visitors rely on the school for dissemination of information; for medical help; for activities, and local refuge in times of need. Students rely on school activities to enhance positive social interaction; this is the only place in our community to provide extra-curricular activities for students. We must maintain this vital component of the Paradise community.

Concerns of the district include continuation of Section 22d funds, which is vital to the district's existence, and the ability to maintain quality programs with spiraling costs.

Points of pride include small class size, highly qualified staff, Interactive Television and MVHS long distance learning, laptop and wireless technology including computers for each child in grades 3-12 through the FTL program. Whitefish Township Community School has experienced a revitalization of school climate, which allows for positive student achievement. Whitefish Township Community Schools has been recognized by Standard and Poors as one of 43 outperforming school districts in the State of Michigan.

Financial Contact

The School's financial statements are designed to present users with a general overview of the School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed towards the Business Office, Whitefish Township Community Schools.

WHITEFISH TOWNSHIP COMMUNITY SCHOOLS

Statement of Net Assets

June 30, 2006

	<u>Governmental Activities</u>
<u>Assets</u>	
Current Assets	
Cash	\$ 299,037
Due from other governmental units	43,610
Inventories	<u>1,549</u>
Total current assets	<u>344,196</u>
Noncurrent Assets	
Capital assets	788,555
Less: accumulated depreciation	<u>607,847</u>
Total noncurrent assets	<u>180,708</u>
Total assets	<u><u>\$ 524,904</u></u>
<u>Liabilities and Net Assets</u>	
Current Liabilities	
Accounts payable	\$ 36,173
Due to other governmental units	52,085
Accrued expenses	<u>35,493</u>
Total current liabilities	<u>123,751</u>
Net Assets	
Investment in capital assets, net of related debt	180,708
Restricted for debt service	5,610
Restricted for capital projects	280
Unrestricted	<u>214,555</u>
Total net assets	<u>401,153</u>
Total liabilities and net assets	<u><u>\$ 524,904</u></u>

WHITEFISH TOWNSHIP COMMUNITY SCHOOLS

Statement of Activities

Year Ended June 30, 2006

Functions/Programs	Program Revenues			Net Revenue (Expense) and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	\$ 531,951	\$ -	\$ 58,738	\$ (441,213)
Support services	399,566	-	11,000	(388,566)
Food services	64,310	7,216	30,283	(26,811)
Athletics	15,141	890	778	(13,473)
Depreciation (unallocated)	26,003	-	-	(26,003)
Total governmental activities	\$ 1,036,971	\$ 8,106	\$ 100,799	\$ (896,066)

General revenues:

Taxes:

Properly taxes, levied for general purposes

State Aid, unrestricted

Interest and investment earnings

Other

648,696
217,378
7,505
11,121

Total general revenues

884,700

Change in net assets

(11,366)

Net assets - beginning of year

412,519

Net assets - end of year

\$ 401,153

WHITEFISH TOWNSHIP COMMUNITY SCHOOLS

Governmental Funds

Balance Sheet

June 30, 2006

	<u>General</u>	<u>Cafeteria</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Assets</u>				
Cash	\$ 284,041	\$ 8,119	\$ 6,877	\$ 299,037
Due from other funds	-	9,970	-	9,970
Due from other governmental units	40,137	3,473	-	43,610
Inventory	-	1,549	-	1,549
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 324,178</u>	<u>\$ 23,111</u>	<u>\$ 6,877</u>	<u>\$ 354,166</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 36,173	\$ -	\$ -	\$ 36,173
Due to other funds	9,970	-	-	9,970
Due to other governmental units	52,085	-	-	52,085
Accrued expenditures	35,493	-	-	35,493
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	<u>133,721</u>	<u>-</u>	<u>-</u>	<u>133,721</u>
Fund Balances:				
Reserved for inventories	-	1,549	-	1,549
Reserved for debt service	-	-	5,610	5,610
Reserved for capital improvements	-	-	280	280
Unreserved:				
Designated for technology	12,000	-	-	12,000
Undesignated	178,457	21,562	987	201,006
	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances	<u>190,457</u>	<u>23,111</u>	<u>6,877</u>	<u>220,445</u>
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 324,178</u>	<u>\$ 23,111</u>	<u>\$ 6,877</u>	<u>\$ 354,166</u>

WHITEFISH TOWNSHIP COMMUNITY SCHOOLS
Governmental Funds
Reconciliation of Balance Sheet of Governmental Funds to Net Assets
June 30, 2006

Total Fund Balances - Governmental Funds	\$ 220,445
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds balance sheet	
Cost of capital assets	788,555
Accumulated depreciation	<u>(607,847)</u>
Total Net Assets - Governmental Activities	<u>\$ 401,153</u>

WHITEFISH TOWNSHIP COMMUNITY SCHOOLS
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2006

	General	Cafeteria	Other Nonmajor Governmental Funds	Total
Revenues:				
Local sources	\$ 660,776	\$ 7,468	\$ 1,845	\$ 670,089
State sources	220,077	6,202	-	226,279
Federal sources	105,156	24,081	-	129,237
	<u>986,009</u>	<u>37,751</u>	<u>1,845</u>	<u>1,025,605</u>
Expenditures:				
Current:				
Instruction	531,951	-	-	531,951
Support services	393,384	-	-	393,384
Food service	-	64,310	-	64,310
Athletics	-	-	15,141	15,141
Intergovernmental payments	10,271	-	-	10,271
	<u>935,606</u>	<u>64,310</u>	<u>15,141</u>	<u>1,015,057</u>
Excess (deficiency) of revenues over expenditures	<u>50,403</u>	<u>(26,559)</u>	<u>(13,296)</u>	<u>10,548</u>
Other financing sources (uses):				
Operating transfers in	-	27,479	13,531	41,010
Operating transfers out	(41,010)	-	-	(41,010)
	<u>(41,010)</u>	<u>27,479</u>	<u>13,531</u>	<u>-</u>
Net change in fund balances	9,393	920	235	10,548
Fund balances - beginning of year	<u>181,064</u>	<u>22,191</u>	<u>6,642</u>	<u>209,897</u>
Fund balances - end of year	<u><u>\$ 190,457</u></u>	<u><u>\$ 23,111</u></u>	<u><u>\$ 6,877</u></u>	<u><u>\$ 220,445</u></u>

WHITEFISH TOWNSHIP COMMUNITY SCHOOLS
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$ 10,548
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital outlays are reported in governmental funds as expenditures.
However, in the statement of activities, the cost of those assets is
allocated over their estimated useful lives as depreciation expense.
This is the amount by which depreciation expense exceeds capital
outlay expenditures that were capitalized in the period.

21,914

Change In Net Assets - Governmental Activities	<u><u>\$ (11,366)</u></u>
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WHITEFISH TOWNSHIP COMMUNITY SCHOOLS
Fiduciary Fund
Statement of Fiduciary Net Assets
June 30, 2006

	Student Activities Agency Fund
Assets	
Cash	\$ 48,214
Liabilities	
Due to student groups	\$ 48,214

WHITEFISH TOWNSHIP COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Whitefish Township Community Schools (the "School District") operates under a Board-Superintendent form of government and provides education services to its residents. The accounting policies of the School District conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant policies used by the School District:

Reporting Entity

The accompanying financial statements have been prepared in accordance with criteria established by Governmental Accounting Standards Board Statement (GASBS) No. 14 (and amended by GASBS No. 39). GASBS 14 states the primary basis for determining whether outside agencies and organizations should be considered component units of the School District and included in the School District's financial statements is financial accountability. Financial accountability has been defined as follows: A primary government has substantive authority to appoint a voting majority of the component unit's board; the primary government is either able to impose its will on a component unit or there is a potential for the component unit to provide specific financial burdens on the primary government; and the component unit is fiscally dependent on the primary government. The School District has no component units.

Basic Financial Statements – Overview

The School District's basic financial statements include both government-wide (reporting the School District as a whole) and fund financial statements (reporting the School District's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support. All of the School District's activities are considered governmental activities.

Basic Financial Statements – Government-Wide Statements

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government. These statements are reported using the economic resources measurement focus and the full accrual basis of accounting. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. The government-wide focus is more on operational efficiency, the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis. Due to the full accrual, economic resource basis, all long-term assets and receivables, as well as long-term debt and obligations are recognized. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The School District first utilizes restricted resources to finance qualifying activities.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basic Financial Statements – Government-Wide Statements - Continued

The government-wide Statement of Activities, due to the full accrual, economic resource basis, records revenue when it is earned and expenses when a liability is incurred, regardless of the timing of related cash flows. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers who purchase, use or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, unrestricted State Aid and other items not properly included among program revenues are reported as general revenue. Any net costs, by function, are allocated to the general revenue.

Basic Financial Statements – Fund Financial Statements

The financial transactions of the School District are reported in individual funds in the fund financial statements. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. The emphasis in the fund financial statements is on the major funds in the governmental activities category. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures of the governmental funds) for the determination of major funds. The School District's major funds, as described below, are the General Fund and Cafeteria Fund. Non-major funds by category are summarized into a single column.

The governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded in the accounting period in which they become both available and measurable. Revenues are available when received within the current period or within 60 days after year-end. Expenditures are recorded in the accounting period in which the liability is incurred. The exception to this general rule is principal and interest on general obligation long-term debt, if any, is recognized when due.

The focus of the fund financial statements is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources).

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into generic fund types and broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not provided for in other funds. The General Fund is a major fund of the School District.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basic Financial Statements – Fund Financial Statements - Continued

Governmental Funds - Continued

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

School Service Funds – The School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds. The School Service Funds maintained by the School District are the Cafeteria and Athletics Funds. The Cafeteria Fund is a major fund of the School District.

Debt Service Funds – The Debt Retirement Funds are used to record tax and interest revenue and the payment of interest, principal and other expenditures on long-term bonded debt. The School District maintains the General Obligation Debt Service Fund.

Capital Project Funds – The Capital Project Funds are used to record property tax revenues, bond proceeds or other revenue and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment, and for major remodeling and repairs. These funds are kept open until the purpose for which they were created has been accomplished. The School District maintains a Capital Project Fund.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the School District in a trustee or agency capacity for others and therefore are not available to support School District programs. Since these funds cannot be used to address activities or obligations of the School District, these funds are not incorporated into the government-wide statements. Fiduciary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting. The following agency fund is presented in the Statement of Fiduciary Net Assets:

Student Activities Agency Fund – The School District presently maintains a Student Activities Agency Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held by the School District for the students.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and other accounts that have the general characteristics of demand deposits.

Investments

Investments are stated at fair market value.

Inventories

Inventories are stated at cost, which approximates market, using the first-in/first-out (FIFO) method. Inventory recorded in the Cafeteria Fund consists of food and paper goods. Disbursements for inventory-type items are recorded at the time of use in the Cafeteria Fund.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets

Capital assets, which include land, buildings, equipment and vehicles are reported in the Statement of Net Assets in the government-wide financial statements. Capital assets are defined by the School District as assets that are purchased or acquired with an original cost of \$3,000 or more and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date donated. Additions, improvements and other capital outlay that significantly extend the useful life of an asset, or increase its capacity or efficiency, are capitalized. Other costs incurred for repairs and maintenance is expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and improvements	20-50 years
Furniture and other equipment	5-15 years

Comparative Data

Comparative total data for the prior year is not included in the School District's financial statements.

NOTE 2: BUDGETING/COMPLIANCE

The School District is required under Public Act 621 to adopt a budget for the General and Special Revenue Funds. Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for these funds. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. All annual appropriations lapse at year-end.

The presentation of budgetary information is required for the General Fund and all major Special Revenue Funds (Cafeteria Fund). In the required supplemental information section, the School District's actual and budgeted expenditures for the General Fund and Cafeteria are presented. The School District did not have an excess of expenditures over appropriations for the General Fund or its Special Revenue Funds.

NOTE 3: CASH AND INVESTMENTS

Cash Deposits

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 3: CASH AND INVESTMENTS – CONTINUED

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. At year-end, the carrying amount of the School District's deposits for both governmental activities and fiduciary funds was \$347,251 and the bank balance was \$387,196. Of the bank balance, \$116,188 was covered by federal depository insurance. The remaining \$271,008 was uninsured and uncollateralized. State statutes prohibit security in the form of collateral, surety bonds or another form be taken for the deposit of public funds.

NOTE 4: PROPERTY TAXES

Property taxes are levied and become a lien on property as of December 1 on the State taxable valuation of property in the School District as of the preceding December 31.

Property taxes are recognized as revenue in the fiscal year they are levied. The Michigan School Accounting Manual requires property taxes receivable be written off in the current year if not received within 60 days of the end of the previous year. This applies to both the government-wide (full accrual) and the fund (modified accrual) financial statements. There is no significant departure from the full accrual basis of accounting using this method.

The 2005 State taxable valuation of non-homestead property as of April 26, 2006, for Whitefish Township Community Schools totaled \$36,224,296 on which taxes levied consisted of 18 mills for operating purposes. These amounts are recognized in the General Fund.

Classification of assessed property between homestead vs. non-homestead is subject to change. In addition, Michigan Tax Tribunal and Board of Review changes throughout the year affect the total taxable valuation.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 5: CAPITAL ASSETS

Capital asset activity for the School District's governmental activities was as follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2006</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 611,407	\$ -	\$ -	\$ 611,407
Furniture and equipment	25,495	-	-	25,495
Vehicles	<u>147,564</u>	<u>4,089</u>	<u>-</u>	<u>151,653</u>
Subtotal	<u>784,466</u>	<u>4,089</u>	<u>-</u>	<u>788,555</u>
Accumulated depreciation:				
Buildings and improvements	445,323	18,035	-	463,358
Furniture and equipment	20,785	1,603	-	22,388
Vehicles	<u>115,736</u>	<u>6,365</u>	<u>-</u>	<u>122,101</u>
Subtotal	<u>581,844</u>	<u>26,003</u>	<u>-</u>	<u>607,847</u>
Net capital assets being depreciated	<u>\$ 202,622</u>	<u>\$ (21,914)</u>	<u>\$ -</u>	<u>\$ 180,708</u>

Governmental activities depreciation expense was charged as follows:

Unallocated	<u>\$ 26,003</u>
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NOTE 6: INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The interfund balances are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Cafeteria	General	<u>\$ 9,970</u>

The General Fund owes the Cafeteria Fund \$9,970 for State Aid and Federal Grants received for Cafeteria expenditures deposited initially into the General Fund.

Interfund transfers consist of the following:

The General Fund made transfers in the amounts of \$27,479 to the Cafeteria Fund and \$13,531 to the Athletic Fund. The General Fund makes transfers on a yearly basis to support these Funds.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 7: **DEFINED BENEFIT PENSION PLAN AND POST EMPLOYMENT BENEFITS**

Whitefish Township Community Schools contributes to the Michigan Public School Employees Retirement System (MPERS), a cost sharing, multiple employers, state wide public employee retirement plan governed by the State of Michigan and created in 1915. MPERS was established by the State of Michigan for purposes of providing retirement, survivor and disability benefits to the State's public school employees. MPERS now operates under the provisions of Public Act 300 of 1980, as amended. MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30026, Lansing, MI 48909-7526 or by calling (517) 322-6278.

Prior to January 1, 1990, MPERS provided a choice of two retirement plans, the Basic Plan, which required no employee contribution and the Member Investment Plan (MIP). For members hired on January 1, 1990 or after, membership in MIP is mandatory. MIP members are required to contribute 3 to 4.3 percent of their annual covered salary and Whitefish Township Community Schools is required to contribute at an actuarially determined rate. The current rate is 16.34% of annual covered payroll, of which approximately 6.55% is for other post employment benefits (see below). The contribution requirements of plan members and Whitefish Township Community Schools are established and may be amended by the MPERS Board.

The School District's contribution to MPERS for the years ending June 30, 2006, 2005 and 2004 were \$80,852, \$70,364 and \$65,773 respectively, equal to the required contributions for each year.

Other post employment benefits

Also under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage which are funded on a cash disbursement basis. Retirees having these coverages contribute an amount approximately equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for health, dental and vision coverages.

The number of plan participants and other relevant financial information consisted of the following at September 30, 2005, the date of the latest actuarial valuation.

Eligible retired participants	151,706
Participants receiving benefits:	
Health	115,071
Dental/Vision	122,291
Expenses for the year	\$761,695,958
Payroll contribution rate	6.55%

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 8: RESERVES AND DESIGNATIONS OF FUND BALANCES

Major Governmental Funds

General Fund - The General Fund designated fund balance includes amounts for technology expenditures.

Cafeteria Fund - The Cafeteria Fund reserved fund balance includes amounts for inventories.

Nonmajor Governmental Funds

Capital Project Fund - The Capital Project Fund has a reserved fund balance for the acquisition and/or construction of major capital assets.

Debt Service Fund - The Debt Service Fund's reserved fund balance represents resources legally restricted for the payment of principal and interest amounts maturing in future years.

NOTE 9: RISK MANAGEMENT

The School District carries commercial insurance for risks of loss, including property and employee health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The School District also belongs to the SEG Self-Insured Workers' Disability Compensation Fund, a public entity risk pool currently operating as a common risk management and workers' compensation insurance program for various school districts throughout the state. The School District pays an annual premium for its workers' compensation insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event. Although the School District could be assessed charges beyond the annual premium, the likelihood of receiving such an assessment is minimal.

REQUIRED SUPPLEMENTAL INFORMATION

WHITEFISH TOWNSHIP COMMUNITY SCHOOLS
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over/(Under)
Revenues:				
Local sources	\$ 646,313	\$ 661,692	\$ 660,776	\$ (916)
State sources	204,250	218,743	220,077	1,334
Federal sources	72,848	105,154	105,156	2
Total revenues	<u>923,411</u>	<u>985,589</u>	<u>986,009</u>	<u>420</u>
Expenditures:				
Current:				
Instruction:				
Basic programs	425,306	455,712	454,196	(1,516)
Added needs	76,624	79,832	77,755	(2,077)
Support services:				
Pupil	20,096	19,054	19,052	(2)
Instructional staff	5,878	5,942	4,738	(1,204)
General administration	181,863	173,126	169,870	(3,256)
School administration	10,320	12,711	12,704	(7)
Business services	13,115	3,556	7,724	4,168
Operation and maintenance	112,878	109,328	110,295	967
Pupil transportation services	52,912	58,131	57,438	(693)
Other support services	12,918	19,982	11,563	(8,419)
Intergovernmental payments	9,800	10,271	10,271	-
Total expenditures	<u>921,710</u>	<u>947,645</u>	<u>935,606</u>	<u>(12,039)</u>
Excess (deficiency) of revenues over expenditures	<u>1,701</u>	<u>37,944</u>	<u>50,403</u>	<u>12,459</u>
Other financing sources (uses):				
Operating transfers out	<u>(42,186)</u>	<u>(40,661)</u>	<u>(41,010)</u>	<u>(349)</u>
Net change in fund balance	<u>(40,485)</u>	<u>(2,717)</u>	<u>9,393</u>	<u>12,110</u>
Fund balance - beginning of year	<u>140,250</u>	<u>181,064</u>	<u>181,064</u>	<u>-</u>
Fund balance - end of year	<u>\$ 99,765</u>	<u>\$ 178,347</u>	<u>\$ 190,457</u>	<u>\$ 12,110</u>

WHITEFISH TOWNSHIP COMMUNITY SCHOOLS
Required Supplementary Information
Budgetary Comparison Schedule
Cafeteria
Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over/(Under)
Revenues:				
Local sources	\$ 7,510	\$ 7,090	\$ 7,468	\$ 378
State sources	-	-	6,202	6,202
Federal sources	25,500	25,968	24,081	(1,887)
Total revenues	33,010	33,058	37,751	4,693
Expenditures:				
Current:				
Food service	66,634	66,291	64,310	(1,981)
Excess (deficiency) of revenues over expenditures	(33,624)	(33,233)	(26,559)	6,674
Other financing sources (uses):				
Operating transfers in	33,624	32,093	27,479	(4,614)
Net change in fund balance	-	(1,140)	920	2,060
Fund balance - beginning of year	18,108	22,191	22,191	-
Fund balance - end of year	\$ 18,108	\$ 21,051	\$ 23,111	\$ 2,060

OTHER SUPPLEMENTAL INFORMATION

WHITEFISH TOWNSHIP COMMUNITY SCHOOLS
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

	Special Revenue Fund	Capital Project Fund	Debt Service Fund	
	Athletics	Sinking	General Obligation	Total
<u>Assets</u>				
Cash	\$ 987	\$ 280	\$ 5,610	\$ 6,877
<u>Fund Balances</u>				
Reserved for debt service	\$ -	\$ -	\$ 5,610	\$ 5,610
Reserved for capital improvements	-	280	-	280
Unreserved:				
Undesignated	987	-	-	987
Total fund balances	\$ 987	\$ 280	\$ 5,610	\$ 6,877

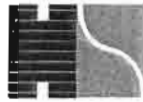
WHITEFISH TOWNSHIP COMMUNITY SCHOOLS
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2006

	Special Revenue Fund	Capital Project Fund	Debt Service Fund	
	Athletics	Sinking	General Obligation	Total
Revenues:				
Local sources	\$ 1,729	\$ 3	\$ 113	\$ 1,845
Expenditures:				
Current:				
Support services	-	-	-	-
Athletics	15,141	-	-	15,141
Capital outlay	-	-	-	-
Total expenditures	15,141	-	-	15,141
Excess (deficiency) of revenues over expenditures	(13,412)	3	113	(13,296)
Other financing sources (uses):				
Operating transfers in	13,531	-	-	13,531
Net change in fund balances	119	3	113	235
Fund balances - beginning of year	868	277	5,497	6,642
Fund balances - end of year	\$ 987	\$ 280	\$ 5,610	\$ 6,877

WHITEFISH TOWNSHIP COMMUNITY SCHOOLS
Other Supplemental Information
Statement of Receipts and Disbursements
Fiduciary Fund
Year Ended June 30, 2006

	Balance July 1, 2005	2005-2006		Balance June 30, 2006
		Receipts	Disbursements	
Class of 2005	\$ -	\$ 18	\$ -	\$ 18
Class of 2006	1,377	20,432	21,799	10
Class of 2007	-	1,024	1,045	(21)
Copy machine	4	-	-	4
Special projects	7,065	-	-	7,065
Kitchen	602	-	100	502
Youth booster club	12,406	356	-	12,762
Student council	267	439	413	293
Interest	12,660	1,082	-	13,742
Yearbook	39	1,309	1,348	-
Miscellaneous	(14)	734	715	5
Elementary basketball	32	-	32	-
Homecoming	60	-	60	-
8th Grade trip	203	-	-	203
Playground	914	-	147	767
Target	71	189	232	28
Veterans' Day fund	166	-	-	166
Sherrie used computers	29	-	-	29
Box tops	484	35	198	321
Library-Sherrie Britton	74	-	-	74
Rachel Mills fund	2,831	128	500	2,459
Professional development	10	100	93	17
Mr. Earles	755	78	316	517
Green slips	273	-	265	8
Ski trip grant	162	2,387	2,068	481
Middle School	516	1,798	1,625	689
Theater	202	-	135	67
Athletic boosters	5,656	7,761	7,760	5,657
21st Century grant	880	-	-	880
Music card	415	-	206	209
Wellness challenge	-	500	457	43
Fran Bitnar Memorial	-	1,115	-	1,115
Science	-	200	96	104
Taylor Warren	-	2,000	2,000	-
Total	\$ 48,139	\$ 41,685	\$ 41,610	\$ 48,214

INTERNAL CONTROL, COMPLIANCE AND OTHER MATTERS



August 10, 2006

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Superintendent and Board of Education
Whitefish Township Community Schools
Paradise, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Whitefish Township Community Schools as of and for the year-ended June 30, 2006, which collectively comprise Whitefish Township Community Schools' basic financial statements and have issued our report thereon dated August 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Whitefish Township Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and other matters

As part of obtaining reasonable assurance about whether Whitefish Township Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

Hill Schroderus & Co.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan

NO MANAGEMENT LETTER WAS ISSUED TO THE WHITEFISH TOWNSHIP COMMUNITY SCHOOLS FOR
THE YEAR ENDED JUNE 30, 2006

NO DATA COLLECTION FORM IS REQUIRED TO BE ISSUED TO THE WHITEFISH TOWNSHIP
COMMUNITY SCHOOLS FOR THE YEAR ENDED JUNE 30, 2006.